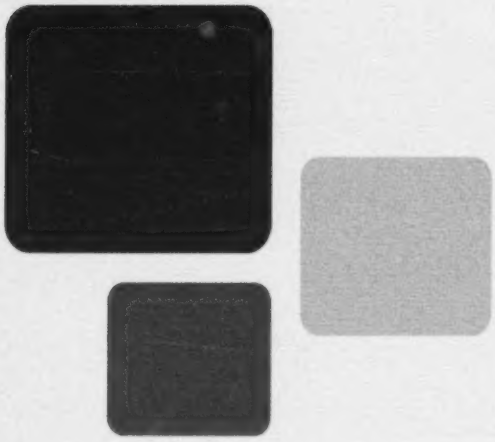

SASKENERGY INCORPORATED

FIRST QUARTER REPORT
June 30, 2016

SaskEnergy

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CORPORATE PROFILE

SaskEnergy Incorporated (SaskEnergy or the Corporation) is a Saskatchewan Crown corporation governed by *The SaskEnergy Act*. It is a designated subsidiary of Crown Investments Corporation of Saskatchewan (CIC). CIC is also a Crown corporation and effectively operates as the Province's holding company for commercial Crown corporations (such as SaskEnergy, SaskPower, SaskTel and SGI) and various commercial investments.

SaskEnergy's main business is the natural gas Distribution Utility. SaskEnergy owns and operates the Distribution Utility, which has the exclusive legislated franchise to distribute natural gas within the Province of Saskatchewan. The Provincial Cabinet regulates SaskEnergy's delivery and commodity rates. All rate changes are subject to review by the Saskatchewan Rate Review Panel – an independent body – prior to receiving Provincial Cabinet approval.

SaskEnergy's corporate structure includes four wholly owned and two indirect wholly owned operating subsidiaries as follows:

Bayhurst Gas Limited (Bayhurst) owns, produces, and sells natural gas from its storage facilities in the western area of Saskatchewan. Bayhurst also owns a gross overriding royalty on several properties in Saskatchewan and Alberta.

Bayhurst Energy Services Corporation (BESCO), a wholly owned subsidiary of Bayhurst Gas Limited, is an energy services company. BESCO owns a 50 per cent interest in a natural gas liquid extraction plant in southeastern Saskatchewan, which is operated through a joint arrangement with ATCO Energy Solutions. BESCO is also the sole owner and operator of a gathering and processing facility in Coleville as well as a bulk compressed natural gas fueling facility in Weyburn.

BG Storage Inc. (BGSI), a wholly owned subsidiary of Bayhurst Gas Limited, owns a 50 per cent interest in a natural gas storage business, which is operated through a joint arrangement with Faro Energy Ventures Ltd.

Many Islands Pipe Lines (Canada) Limited (MIPL) is a transmission company that owns nine natural gas transmission pipeline interconnections into Alberta, two into the United States, and one into Manitoba, all of which connect to the TransGas Limited pipeline system. MIPL is regulated by the National Energy Board.

Saskatchewan First Call Corporation (*Sask 1st Call*) provides a centralized "Call Before You Dig" underground facility screening and notification service. *Sask 1st Call* was established primarily for safety reasons to maintain a database of oil, natural gas, and other underground infrastructures. *Sask 1st Call* provides a service whereby landowners and other stakeholders can contact *Sask 1st Call* to request the location of pipeline- and non-pipeline-related facilities of its subscribers. *Sask 1st Call's* rate structure is intended to recover all operational costs and operate on a break-even basis.

TransGas Limited (TransGas) owns and operates the Transmission Utility and has the exclusive legislated franchise to transport natural gas within the Province of Saskatchewan. It also owns and operates a non-regulated natural gas storage business which is integrated with the transmission pipeline system. TransGas' transportation and storage rates are subject to Provincial Cabinet approval. TransGas has a Customer Dialogue process where business, operational and rate matters are openly discussed with a representative group of customers.

As a Crown corporation, SaskEnergy is committed to ensuring that all corporate activities align with the Government of Saskatchewan's Crown Sector Strategic Priorities and the Saskatchewan Plan for Growth. Providing safe, reliable, high quality service to its customers is critically important to the Corporation – as is the provision of infrastructure necessary for the Province to grow and prosper.

VISION, MISSION AND VALUES

VISION

To create a competitive advantage for Saskatchewan through safe, innovative energy solutions.

MISSION

Our team of engaged employees and business partners develops and delivers safe, reliable natural gas solutions that benefit our customers and Saskatchewan.

VALUES

Community
We are leaders in developing a diverse workforce, supporting our communities and environmental stewardship.
Recognition
We take time to recognize the individual and team contributions of our employees.
Spirit
We create a positive and dynamic work environment that enables personal achievement, work life balance & business success.
Safety
We never compromise the safety of our employees and the public.
Communication
We have open, honest and respectful communication that builds strong relationships.
Accountability
We are accountable for our decisions, our actions and the results.
Integrity
We are honest, respectful and apply high ethical standards.

FINANCIAL AND OPERATING HIGHLIGHTS

	Three months ended June 30, 2016	
	2016	**2015**
FINANCIAL HIGHLIGHTS ($ millions)		
Total revenue	**118**	145
Total expenses	**64**	146
Consolidated net income (loss)	**54**	(1)
Market value adjustments	**57**	4
Income before unrealized market value adjustments	**(3)**	(5)
Dividends	**-**	10
Cash provided by operating activities	**54**	80
Capital expenditures	**29**	41
Total assets	**2,451**	2,331
Total net debt	**1,163**	1,102
Debt ratio	**59.4%**	60.2%
OPERATING HIGHLIGHTS		
Distribution		
Volumes distributed (petajoules)		
Residential/Farm	**4**	4
Commercial	**4**	4
Industrial	**30**	28
Total	**38**	36
Percentage warmer (colder) than normal (compared to last 30 years)	**17% warmer**	5% warmer
Transmission		
Volumes transported (petajoules)		
Domestic	**64**	58
Export	**1**	4
Total	**65**	62

MANAGEMENT'S DISCUSSION & ANALYSIS

INTRODUCTION

The Management's Discussion and Analysis (MD&A) highlights the primary factors that affected SaskEnergy's consolidated financial condition and performance for the three months ended June 30, 2016. On November 30, 2015, the Government of Saskatchewan announced a change in the year end for CIC and its subsidiaries from December 31 to March 31. SaskEnergy reported a 15-month period ended March 31, 2016 to transition to the new fiscal period and will report on 12-month periods ending March 31st each year thereafter. Using financial and operating results as its basis, the MD&A describes the Corporation's past performance and future prospects, enabling readers to view SaskEnergy from the perspective of management. This MD&A is presented as at August 22, 2016 and should be read in conjunction with the Corporation's condensed consolidated financial statements, which have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards (IFRS). For additional information related to the Corporation, refer to SaskEnergy's 2015-16 Annual Report.

The following discussion contains certain forward-looking statements that are subject to inherent uncertainties and risks, which are described in the Risk Management and Disclosure section of SaskEnergy's 2015-16 Annual Report. All forward-looking statements reflect the Corporation's best estimates and assumptions based on information available at the time the statements were made. However, actual results and events may vary significantly from those included in, contemplated by, or implied by such statements.

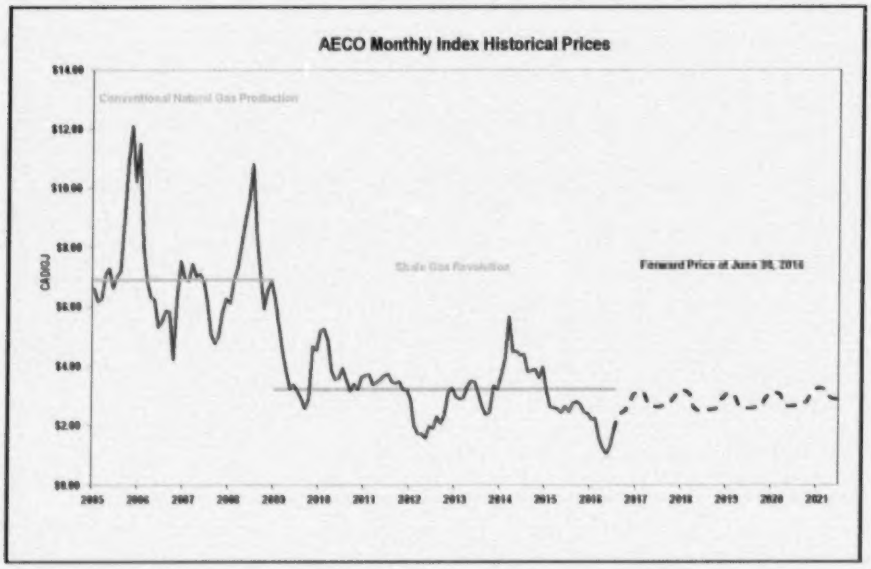
The volume of natural gas delivered to customers is sensitive to variations in the weather, particularly through the prime heating season of November to March. Additionally, changes in market value adjustments may cause significant fluctuations in net income due to the volatility of natural gas prices. Therefore, the condensed consolidated financial results for the first three months of 2016-17 should not be taken as indicative of the performance to be expected for the full year.

In order to compare financial performance from period to period, the Corporation uses the following measures: income before unrealized market value adjustments, realized margin on commodity sales, and realized margin on gas marketing sales. Each measure removes the impact of fair value adjustments on financial and derivative instruments and the revaluation of natural gas in storage to the lower of cost and net realizable value. These unrealized market value adjustments vary considerably with the market prices of natural gas, drive significant changes in the Corporation's consolidated net income, and may obscure other business factors that are also important to understanding the Corporation's financial results. The measures referred to above are non-IFRS measures, in that there is no standardized definition, and may not be comparable to similar measures presented by other entities.

INDUSTRY OVERVIEW

Natural gas prices are set in an open market and are influenced by a number of factors including production, demand, natural gas storage levels and economic conditions. Given the high demand for natural gas to heat homes and businesses during the cold winter months, and the demand for natural gas to produce electricity for air conditioning, weather typically has the greatest impact on natural gas prices in the near term. Due to the high degree of uncertainty associated with weather, natural gas prices can be very volatile.

In response to the low prices in 2015 and 2016, North American production slowed, while growth in natural gas demand continued to rise, particularly in the industrial and power generation sectors. This changing supply/demand balance for natural gas initiated a quick recovery of the AECO monthly index, the benchmark price for natural gas in Western Canada, as the index improved from $1.02 per GJ at the end of March 2016 to $2.19 per GJ at the end of June 2016. This was a $1.17 per GJ (115 per cent) recovery in the three month period as noted in the AECO Monthly Index Historical Prices chart. Most natural gas in Saskatchewan is priced at a differential to the AECO price and is typically between $0.05 per GJ and $0.20 per GJ higher than AECO.



In previous years shale gas production has responded quickly to natural gas price increases by increasing production, which has limited the recovery of gas prices. During the first quarter of the fiscal year shale gas production has been slower to respond to the price decrease, which allowed for natural gas prices to recover by the end of June 2016 to levels comparable to the fall of 2015.

The rise in gas prices during the first quarter has not affected Saskatchewan Gas Production. SaskEnergy continues to see record amounts of gas imported from Alberta. Much of the imported gas is being injected into storage facilities within the Province, which are expected to fill much earlier than in previous years.

CONSOLIDATED FINANCIAL RESULTS

Consolidated Net Income (Loss)

(millions)	Three months ended June 30 2016	2015	Change
Loss before unrealized market value adjustments	$ (3)	$ (5)	$ 2
Impact of fair value adjustments	46	3	43
Revaluation of natural gas in storage	11	1	10
Consolidated net income (loss)	$ 54	$ (1)	$ 55

The loss before unrealized market value adjustments was $3 million for the three months ended June 30, 2016, $2 million favourable compared to the $5 million loss in 2015. Results for April to June are typically low as the weather is not cold enough to generate high residential and commercial heating loads. Transportation revenue increased year-over-year, resulting from higher contracted demand volumes combined with a 2.5 per cent transportation service rate increase effective January 1, 2016. Delivery revenue increased due to a 4.5 per cent rate increase effective January 1, 2016, while volumes delivered to residential and commercial customers decreased, a result of 2016 being warmer than 2015. A reduction in employee benefits expense also contributed to the favourable variance due to lower overtime and lower staffing levels.

A commodity rate decrease effective January 1, 2016, combined with lower volumes delivered to customers due to warmer weather reduced the realized commodity margin in 2016 compared to 2015. The gas marketing margin was comparable to 2015, as lower margins were almost completely offset by higher sales volumes.

A favourable unrealized fair value adjustment was recognized during the quarter as higher priced natural gas purchase contracts related to the Corporation's commodity business expired during the quarter. In addition, natural gas market prices recovered significantly at the end of June 2016. The AECO near-month natural gas spot price increased from $1.02 per GJ at

the end of March 2016 to $2.19 per GJ at the end of June 2016 generating a favourable unrealized fair value adjustment on outstanding natural gas contracts.

Natural Gas Sales and Purchases

Included within natural gas sales and purchases are rate-regulated commodity sales to distribution customers and non-regulated gas marketing activities. IFRS requires these activities to be presented together within the consolidated financial statements; however, the Corporation manages these activities as distinct and separate businesses and, as such, the MD&A addresses these natural gas sales and purchases separately.

As derivative instruments, natural gas contracts are recorded at fair value until their settlement date. Changes in the fair value of the derivative instruments, driven by changes in future natural gas prices, are recorded in net income through natural gas sales or natural gas purchases depending on the specific contract. Upon settlement of the natural gas contract, the amount paid or received by SaskEnergy becomes realized and is recorded in natural gas sales or purchases.

Commodity Margin

SaskEnergy sells natural gas to its distribution customers at a commodity rate approved by Provincial Cabinet based on the recommendations of the Saskatchewan Rate Review Panel. The commodity rate, which is reviewed in April and November of each year, is determined based on rate-setting principles and is designed to recover the realized costs associated with natural gas sold to distribution customers without earning a profit or incurring a loss over the long term. For rate-setting purposes, SaskEnergy accumulates differences between the commodity revenue earned and the cost of natural gas sold in a Gas Cost Variance Account (GCVA). The balance in the GCVA, which is not recorded for financial reporting purposes, is either recovered from or refunded to customers as part of future commodity rates. Consequently, higher commodity margins in one year are often followed by a commodity rate reduction and lower commodity margins in the subsequent year, as is the case in 2015-16 and 2016-17.

For financial reporting purposes, the Corporation prepares its financial statements on a consolidated basis while applying IFRS. As a result, the amounts determined for rate-setting purposes are different than those reported within its consolidated financial statements. The most notable differences are the elimination of intercompany costs in the preparation of the consolidated financial statements, including transportation costs paid to TransGas, as well as the timing related to recognition of financial derivative settlements. While a gain or loss is commonly reported in the Corporation's consolidated financial statements, it should not be taken as indicative of the results recorded within the GCVA.

The commodity margin on sales to customers, as reported in the condensed consolidated financial statements, was as follows:

	Three months ended June 30		
(millions)	2016	2015	Change
Commodity sales	$ 28	$ 41	$ (13)
Commodity purchases [1]	(27)	(36)	9
Realized margin on commodity sales	1	5	(4)
Impact of fair value adjustments	48	9	39
Margin on commodity sales	$ 49	$ 14	$ 35

[1] Net of change in inventory

SaskEnergy manages the purchase price of natural gas it buys through its natural gas price risk management program with two objectives – to reduce the volatility of natural gas prices and to offer rates that are competitive to other utilities. The two objectives naturally oppose each other, and the balance between the two may change depending on existing market conditions. In order to ensure a secure supply of natural gas, SaskEnergy contracts for the physical delivery of natural gas using non-financial derivatives, referred to as forward or physical natural gas contracts. The purchase price contained in these forward contracts may be fixed, or it may be based on a variable index price. While fixed price contracts reduce the impact of natural gas price volatility, variable or market prices can assist in offering competitive rates depending on the pricing environment. SaskEnergy uses financial derivatives and physical swaps to manage the future purchase price of natural gas. In the current low price environment SaskEnergy's price risk management strategy leans more towards reducing volatility and as a result, SaskEnergy has more price risk management transactions which tend to drive more variability in fair value adjustments

The realized margin on commodity sales excludes the impact of unrealized fair value adjustments on derivative instruments, as these adjustments can fluctuate significantly from one period to the next and do not necessarily represent the amount that will be paid upon settlement of the related natural gas contract. On a consolidated basis, the Corporation realized a $1 million margin on commodity sales, with average revenue of $3.76 per GJ and average cost of gas sold of $3.62 per GJ resulting in a

margin of $0.14 per GJ. This compared to a favourable realized margin of $5 million for the same period in 2015 based on an average commodity margin of $0.36 per GJ. The lower realized commodity margin in 2016 is a result of a commodity rate decrease from $4.84 per GJ to $4.30 effective January 1, 2016. Lower volumes delivered to residential and commercial customers also contributed to the lower margin, a result of weather being 17 per cent warmer than normal in 2016 compared to 5 per cent warmer in 2015.

Commodity Fair Value Adjustments

The fair value adjustments at the end of the quarter increased the margin on commodity sales by $48 million as the $100 million unfavourable fair value position at March 31, 2016 improved to $52 million unfavourable at June 30, 2016. The settlement of higher priced natural gas purchase contracts during the three months contributed to a lower volume of contracts outstanding and the prices of the remaining natural gas purchase contracts outstanding are closer to market prices due to the recovery of market prices during the quarter. Market prices dropped at the end of March 2016, as warmer weather through the winter resulted in higher than expected levels of natural gas in storage. The AECO near-month natural gas spot price increased $1.17 per GJ from $1.02 per GJ at the end of March 2016 to $2.19 per GJ at the end of June 2016.

Gas Marketing Margin

SaskEnergy's gas marketing activity employs several different strategies, all of which attempt to optimize storage and transportation capacity available to the Corporation to earn a positive margin. The primary strategy involves the purchase and storage injection of natural gas accompanied by a forward sales contract that essentially locks in a future profit margin. Traditionally this strategy has produced significant margins; however, while natural gas market prices have declined and differentials between current and forward market prices have narrowed, the opportunities to generate significant margins have also diminished. The Corporation also optimizes transmission and storage capacity during off-peak periods by purchasing and selling natural gas in the open market to generate additional margins. The margins earned on this activity benefit customers by reducing pressure on transmission and distribution rates. The Corporation also leverages its storage facilities by purchasing natural gas and injecting it into storage when gas prices are low and selling when gas prices recover. This activity is primarily responsible for the revaluation of natural gas in storage, as gas prices have fallen to all time low prices while inventory balances have grown. Lastly, SaskEnergy provides natural gas supply options to larger end-use customers in Saskatchewan through non-regulated contract sales.

The gas marketing margin, as reported in the condensed consolidated financial statements, was as follows:

	Three months ended June 30		
(millions)	2016	2015	Change
Gas marketing sales	$ 26	$ 35	$ (9)
Gas marketing purchases [1]	(21)	(31)	10
Realized margin on gas marketing sales	5	4	1
Impact of fair value adjustments	(5)	(2)	(3)
Revaluation of natural gas in storage	11	1	10
Margin on gas marketing sales	$ 11	$ 3	$ 8

[1] Net of change in inventory

The realized margin on gas marketing sales for 2016, which removes fair value adjustments on derivative instruments and the revaluation of natural gas in storage, was $5 million, which is consistent with prior year. A low market price environment generally constrains opportunities for the Corporation to transact significant volumes of purchases and sales at favourable margins; however, the rapid decline in short-term market prices at the end of March 2016 generated favourable forward pricing differentials as forward pricing did not decline to the same extent. This allowed the Corporation to increase gas marketing activity with 17 PJs of natural gas sold in the three months ended June 30, 2016 compared to 12 PJs in the same period of 2015.

Gas Marketing Fair Value Adjustments

The Corporation enters into various natural gas contracts (swaps, options and forwards) in its gas marketing strategies, which are subject to volatility of natural gas market prices. The fair value adjustment at June 30, 2016 on gas marketing derivative instruments reduced the gas marketing margin by $5 million compared to the unfavourable fair value impact of $2 million at the end of the same period in 2015. The market price increase at the end of June 2016 resulted in the $5 million unfavourable effect on net income. The AECO near month spot price increased $1.17 per GJ from March 2016 to the end of June 2016. At June 30, 2016 the Corporation's outstanding gas marketing contracts consisted primarily of sales contracts. The average deal price at June 30, 2016 on the outstanding sales contracts was $0.14 below the market price in comparison to the favourable position at the end of March 2016 when the average deal price on the outstanding sales contracts was $0.23 higher than the market price.

Revaluation of Natural Gas in Storage

At each reporting period, the Corporation measures the net realizable value of gas marketing natural gas in storage based on forward market prices and anticipated delivery dates. The carrying amount of natural gas in storage is adjusted to reflect the lower of weighted average cost and net realizable value. In recent years, low natural gas prices have translated to reduced prices on the forward price curve. The declining market price environment at the end of March 2016 provided an opportunity for the Corporation to purchase lower priced natural gas and inject it into storage. When natural gas market prices increased through the three months ended June 30, 2016, the $34 million unfavourable net realizable value impact at the end of March 2016 improved by $11 million to $23 million at the end of June 2016.

Revenue

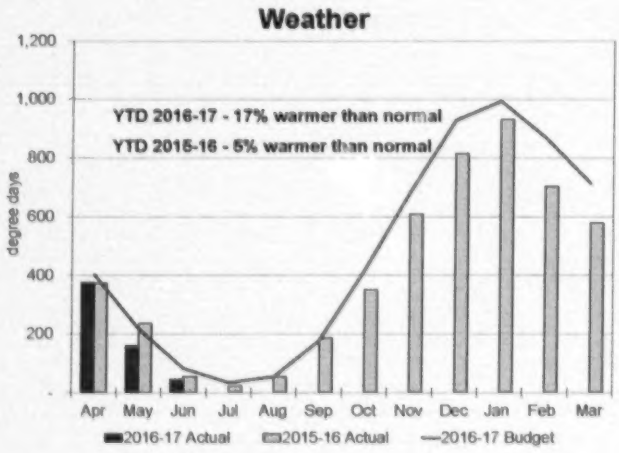
Delivery revenue, transportation and storage revenue, customer capital contributions and other revenue, as reported in the condensed consolidated financial statements, were as follows:

	Three months ended June 30		
(millions)	2016	2015	Change
Delivery revenue	$ 42	$ 39	$ 3
Transportation and storage revenue	32	29	3
Customer capital contributions	2	2	-
Other revenue	2	3	(1)
	$ 78	$ 73	$ 5

Delivery Revenue

Delivery Revenue is driven by customer growth and how much natural gas customers consume. As residential and commercial customers consume natural gas primarily as heating fuel, weather is the factor that most affects delivery revenue.

During the three months ending June 30, 2016, delivery revenue of $42 million was $3 million higher than the same period in 2015, a result of the 4.5 per cent rate increase effective January 1, 2016. This was slightly offset by lower volumes consumed as the period was 17 per cent warmer than normal, based on weather data for the past 30 years, compared to 5 per cent warmer than normal for the same period in 2015. This year-over-year weather differential impacts delivery revenue less in the April to June period as weather is typically warm enough that residential and commercial customers don't have large heating requirements.



Transportation and Storage Revenue

The Corporation generates transportation revenue by taking delivery of gas from customers at various receipt points in Saskatchewan and Alberta, and delivering natural gas to customers at various delivery points in the Province. The transportation toll structure consists of a receipt service in which customers pay when they put gas onto the pipeline transportation system, and a delivery service in which customers pay a separate toll when they take delivery off of the pipeline transportation system. When gas has been delivered to the system by customers, it is considered to be part of the TransGas Energy Pool (a notional point where producers, marketers and end-users can match supplies to demand) until it is delivered to the end-use customer. For its receipt and delivery service, the Corporation offers both firm and interruptible transportation. Under a firm service contract, the customer has a right to deliver or receive a specified quantity of gas on each day of the contract. Under an interruptible contract, the customer may deliver or receive gas only when there is available capacity on the system. With a firm contract, customers pay for the amount of capacity they have contracted for whether they use the capacity or not. Under an interruptible contract, customers only pay receipt and delivery tolls when they deliver or receive gas.
Transportation and storage revenue of $32 million was $3 million above the same period in 2015. Industrial customer load growth continues to increase demand for natural gas within the province and drives higher transportation revenue. Additionally a 2.5 per cent transportation rate increase effective January 1, 2016, contributed to the favourable transportation variance year-over-year.

Customer Capital Contributions

The Corporation receives capital contributions from customers to partially offset the cost of constructing facilities to connect them to the transmission and distribution systems. Generally, contributions related to transmission system projects tend to be larger but less frequent than contributions related to the distribution system. The volume and magnitude of customer contribution revenue can vary significantly period-over-period as various factors influence their receipt and recognition as revenue. The contributions received, less potential refunds, are recognized as revenue once the related property, plant and equipment is available for use. Customers may earn a refund of some or all of the contributions they make depending on how much gas they flow. The amount of contributions that are likely to be refunded are estimated and recorded in deferred revenue until the eligible refund period expires or a refund is earned by the customer. Customer capital contribution revenue of $2 million for the three months ending June 30, 2016 was equal to the same period last year.

Other Revenue

Other revenue primarily consists of gas processing fees and natural gas liquid sales from two natural gas liquid extraction plants. Compression and gathering service revenue and royalty revenues comprise the remaining balance of other revenue. Royalty revenues are generated from a gross overriding royalty on several natural gas-producing properties in Saskatchewan and Alberta, which have diminished due to the continuing decline of conventional natural gas production, a result of low natural gas prices. Other revenue of $2 million for the three months ending June 30, 2016 was $1 million lower than 2015, a result of lower compression and gathering revenue.

Other Expenses and Net Finance Expense (before FVA)

Other expenses and net finance expense, as reported in the condensed consolidated financial statements, are as follows:

	Three months ended June 30		
(millions)	2016	2015	Change
Employee benefits	$ 21	$ 23	$ (2)
Operating and maintenance	30	29	1
Depreciation and amortization	23	21	2
Saskatchewan taxes	2	2	-
Other Expenses	$ 76	$ 75	$ 1
Net finance expense (before FVA)	$ 11	$ 12	$ (1)

Increasing investment in safety and integrity, strong customer growth and the need to import more natural gas from Alberta, as Saskatchewan natural gas production declines, are key factors contributing to increases in other expenses. Employee benefits expense of $21 million is $2 million lower than prior year as the Corporation was able to manage vacant positions, through efficiency initiatives while generating cost savings. Overtime was reduced through collaboration with other Crown corporations and third parties, plus a continued focus on efficiencies. Operating and maintenance expense of $30 million was comparable to prior year, with a slight increase in third party transportation costs as customers continue to require additional cross border transportation capacity to bring gas in from Alberta. This was almost fully offset by cost savings in contract and consulting, material and supplies, vehicle and advertising costs. Depreciation and amortization of $23 million was $2 million above prior year as capital additions increase the asset base and depreciation and amortization. Saskatchewan taxes of $2 million equal the prior year.

Net finance expenses, before the impact of fair value adjustments, were $11 million for the three months ending June 30, 2016 and were $1 million lower than 2015. Long-term debt levels remain consistent with prior year, while lower interest rates allowed the Corporation to replace higher cost long-term debt with lower cost long-term debt as it matures. There was a $3 million favourable fair value adjustment on debt retirement funds during 2016, an outcome of lower interest rates on fixed-rate investments.

LIQUIDITY AND CAPITAL RESOURCES

(millions)	Three months ended June 30 2016	2015	Change
Cash provided by operating activities	$ 54	$ 80	$ (26)
Cash used in investing activities	(31)	(44)	13
Cash used in financing activities	(33)	(45)	12
Decrease in cash and cash equivalents	$ (10)	$ (9)	$ (1)

Cash provided from operations and debt borrowed from the Province of Saskatchewan's General Revenue Fund is the primary source of liquidity and capital for SaskEnergy. Generally, SaskEnergy finances its investment activity with cash from operations. To the extent that cash from operations is insufficient to support investment activity, debt servicing costs and dividends, additional short and long term debt is borrowed. Sources of liquidity include Order in Council authority to borrow up to $500 million in short-term loans. The Corporation holds a $35 million uncommitted line of credit with the Toronto-Dominion Bank. Over the longer term, *The SaskEnergy Act* allows the Corporation to borrow up to $1,700 million.

Operating Activities

Cash from operating activities was $54 million for the three months ended June 30, 2016, a decrease of $26 million from the same period in 2015. A lower commodity margin, a result of a commodity rate decrease and warmer weather decreasing natural gas sales, contributed to lower cash from operations in 2016 compared to 2015. The Corporation also took advantage of low natural gas market prices by purchasing and injecting lower priced natural gas into storage. Higher transportation revenue and delivery revenue in 2016, combined with lower employee benefits expense, partially offset these decreases in operating cash flows compared to 2015.

Investing Activities

Cash used in investing activities totaled $31 million for the three months ended June 30, 2016, $13 million below 2015. Capital investment levels declined in 2016 compared to 2015, primarily due to lower investments in customer connections and system expansions, while spending on safety and integrity programming was consistent with 2015, a sign of the Corporation's ongoing commitment to a safe, reliable system.

Financing Activities

Cash used for financing activities was $33 million during the three months of 2016 compared to $45 million in 2015. From a cash management perspective, SaskEnergy uses cash from operations to pay for its investing activities, dividend payments and debt servicing costs (including interest payments and sinking fund installments). Any remaining cash from operations is applied to reducing the amount of short-term debt, as was the case in 2015. If there is insufficient cash from operations, SaskEnergy will borrow more debt, usually short-term debt to meet its cash requirements, as was the case in 2016 with the issuance of $2 million of short-term debt. Excluding short-term debt repayments and borrowings, cash used in financing was $35 million in 2016 compared to $29 million in 2015, primarily due to larger dividend payments. In 2015, cash from operations was sufficient to cover its capital expenditure, debt servicing costs, and dividends, and also allowed it to repay $16 million of short-term debt.

Long-term debt levels were consistent with prior year as the Corporation repaid $22 million in long-term debt with an effective interest rate of 4.8 per cent, which was replaced with $22 million in long-term debt with an effective interest rate of 3.2 per cent. SaskEnergy's debt ratio at June 30, 2016 was 59 per cent in comparison to 61 per cent at March 31, 2016 and 60 per cent at June 30, 2015.

CAPITAL EXPENDITURES

(millions)	Three months ended June 30 2016	2015	Change
Customer growth and system expansion	$ 14	$ 22	$ (8)
Safety and system integrity	13	15	(2)
Information systems	2	3	(1)
Vehicles & equipment, buildings, furniture	-	2	(2)
	$ 29	$ 42	$ (13)

SaskEnergy continues to invest in its pipeline system to accommodate growth in the natural gas customer base and its transition to becoming a net importer of natural gas. Capital expenditures of $29 million for the three months ended June 30, 2016 are $13 million below the same period in 2015. Customer growth and system expansion capital expenditures of $14 million are $8 million lower than 2015, primarily due to slower distribution customer growth, combined with lower spending on the Advanced Metering Infrastructure (AMI) and the meter exchange programs.

OUTLOOK

In late November, the Government of Saskatchewan announced that, as a next step in the transition to summary budgeting, the fiscal year end of Crown Investments Corporation entities, including SaskEnergy, changed from December 31 to March 31. SaskEnergy reported a 15-month period ending March 31, 2016 to transition to the new fiscal year-end and will report on the 12-month periods ending March 31st with the first being March 31, 2017.

In close alignment with Saskatchewan Crown Sector Priorities and the Saskatchewan Plan for Growth, SaskEnergy's 2016-17 efforts will continue to focus on the four strategic mandates: Service Excellence, Achieving Growth, Our Team and Creating Value. The Corporation is financially well-positioned to achieve its business objectives in 2016-17 and its five-year planning horizon.

Market Prices

Natural gas market prices returned to more characteristic levels of volatility between January 2016 and June 2016 in comparison to the relatively stable market price environment experienced throughout 2015. Natural gas prices reached 20-year lows at the end of March 2016 and then recovered by the end of June 30, 2016. It is not expected that natural gas prices will continue to achieve gains similar to what was witnessed during the first quarter of this fiscal year. With the warm weather through the 2015-16 winter, the amount of gas in storage in Alberta at the beginning of this quarter was much higher than usual. The April to June period has seen additional injections such that storage levels in Western Canada, as of June 30, were 92 per cent full while Canadian storage inventory levels were 83 per cent full compared to 60 per cent full June 30, 2015. It is expected that Alberta storage will reach capacity during August based on current injection rates. Once Alberta storage is full, gas prices are likely to fall. However, there may be continuing strength in NYMEX pricing which will support longer term AECO pricing. This should create gas marketing opportunities for the Corporation as the spreads between spot prices and forward prices create opportunities for those who have storage capacity.

Commodity Margin

The commodity rate reduction effective January 1, 2016, a reflection of low natural gas prices resulting from growing U.S natural gas supply during 2014 and 2015, will contribute to lower commodity revenue through 2016-17 in comparison to 2015. The commodity margin will be low through the second quarter until the winter heating season begins midway through the third quarter and continues through to the end of the fiscal period. The commodity margin will be highly dependent on winter weather conditions.

During the first quarter, the Corporation submitted an application to the Saskatchewan Rate Review Panel to lower the Commodity rate by 14 per cent effective November 1, 2016. If approved, the commodity rate will decrease from $4.30 per GJ to $3.65 per GJ as natural gas prices are expected to decline following reduced heating loads from the warm winter and high levels of natural gas in storage.

Gas Marketing Margin

SaskEnergy purchased and injected low priced natural gas into storage as market prices declined earlier this year. With Alberta storage expected to fill in August, the Corporation expects to find opportunities to purchase additional lower priced natural gas and inject it into storage for sale at some future date when natural gas prices are higher. These lower cost purchases will reduce the average cost of natural gas and create higher margins on existing sales contracts over the remainder of the year.

Delivery Revenue

The warmer weather through the first three months of 2016-17 decreased delivery volumes and revenue compared to 2015.Delivery revenue is not expected to improve significantly until colder weather in November drives the heating load. Consequently, 2016-17 financial results will be highly dependent on winter weather conditions through the third and fourth quarters. The pace of Saskatchewan's provincial economy and residential customer growth is expected to remain subdued through 2016-17. Customer connection levels are expected to decline in comparison to recent years while industrial and commercial demand for service is expected to continue at strong levels. The 4.5 per cent delivery rate increase effective January 1, 2016 will result in increased delivery revenue relative to prior years.

During the first quarter, the Corporation submitted an application to the Saskatchewan Rate Review Panel for an average rate increase of 8.6 per cent effective November 1, 2016. Regular delivery service rate increases are required to offset cost pressures related to maintaining a safe and reliable distribution system and an industry standard rate of return. The Corporation will also continue to focus on efficiencies that will offset cost pressures to ensure delivery service rates remain competitive. The commodity rate decrease will more than offset the increase to the delivery service rates such that customers will see an overall reduction on their bills.

Transportation Revenue

Transportation and storage service rate increases implemented effective January 1, 2016 will result in higher transportation and storage revenue. This is required to address increasing capital and operating costs related to increased focus on system integrity, emergency response, public awareness and the increasing cost of importing natural gas supply from Alberta. During the first quarter, Alberta border capacity has operated at 90 per cent of capacity as customers maximize purchases of natural gas and storage injections. A corresponding increase to revenue has not been realized as customers have transported much of the incremental volume of gas on their firm contracts. Increased demand to import gas from Alberta is expected to continue as market prices are expected to fall again once Alberta storage fills in August.

Other Expenses

The economic downturn in the Province has driven SaskEnergy to put even more focus on austerity during 2016. The cost reductions realized during the first quarter are indicative of the efforts that SaskEnergy will make to contain costs through the remainder of the year. Additional cost savings may be achievable as SaskEnergy continues to focus efficiencies through collaboration with other Crown Corporations, business process changes and technology initiatives.

The economic downturn may create favourable pricing and availability among many suppliers and contractors. This would present opportunities for SaskEnergy/TransGas to effectively manage capital and operating projects in the near term to realize long-term savings. The Corporation is expecting staffing levels to remain consistent through 2016. Leveraging efficiency and productivity initiatives, SaskEnergy will continue to meet the Province's growing natural gas requirements as fiscal constraint measures continue during the economic downturn.

Capital Investment

SaskEnergy will continue to focus its efforts on providing safe and reliable service to customers while managing rate pressure. Spending will focus on upgrading infrastructure to meet industrial customer's load growth, new service requirements, as well as the integrity of transmission, distribution and storage systems. The Corporation is forecasting to spend $292 million on capital expenditures ($249 net of capital customer contributions) for the 12 months ending March 31, 2017. These capital expenditures will be funded through operating cash flows and debt made available through the Province at what are expected to be historically low interest rates.

In summary, SaskEnergy will continue to focus on investing in safety and growth initiatives and realizing efficiencies, while forecasting income before unrealized market value adjustments of $77 million for 2016-17.

CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(millions)	Notes	As at June 30, 2016 (unaudited)	As at March 31, 2016 (audited)
Assets			
Current assets			
Cash		$ 1	$ 11
Trade and other receivables		56	104
Natural gas in storage held for resale	4	120	86
Inventory of supplies		12	11
Debt retirement funds		10	10
Fair value of derivative instruments	5	9	11
		208	233
Intangible assets		58	57
Property, plant and equipment		2,088	2,068
Debt retirement funds		97	92
		$ 2,451	$ 2,450
Liabilities and Province's equity			
Current liabilities			
Short-term debt		$ 301	$ 299
Trade and other payables		103	105
Dividends payable		-	21
Current portion of long-term debt	6	97	100
Deferred revenue		61	61
Fair value of derivative instruments	5	64	109
		626	695
Employee future benefits		8	8
Provisions		143	130
Deferred revenue		6	6
Long-term debt	6	873	870
		1,656	1,709
Province's equity			
Equity advances		72	72
Retained earnings		723	669
		795	741
		$ 2,451	$ 2,450

(See accompanying notes)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(unaudited)

(millions)	Notes	For the Three Months Ended June 30, 2016 Income before Unrealized Market Value Adjustments	Unrealized Market Value Adjustments (Note 8)	Total	For the Three Months Ended June 30, 2015 Income before Unrealized Market Value Adjustments	Unrealized Market Value Adjustments (Note 8)	Total
Revenue							
Natural gas sales	9	$ 54	$ (14)	$ 40	$ 76	$ (4)	$ 72
Delivery		42	-	42	39	-	39
Transportation and storage	12	32	-	32	29	-	29
Customer capital contributions		2	-	2	2	-	2
Other	12	2	-	2	3	-	3
		132	(14)	118	149	(4)	145
Expenses							
Natural gas purchases (net of change in inventory)	9	48	(68)	(20)	67	(12)	55
Employee benefits		21	-	21	23	-	23
Operating and maintenance		30	-	30	29	-	29
Depreciation and amortization		23	-	23	21	-	21
Saskatchewan taxes		2	-	2	2	-	2
		124	(68)	56	142	(12)	130
Income before the following		8	54	62	7	8	15
Finance income		1	3	4	1	(4)	(3)
Finance expenses		(12)	-	(12)	(13)	-	(13)
Net finance expenses		(11)	3	(8)	(12)	(4)	(16)
Total net income (loss) and comprehensive income (loss)		$ (3)	$ 57	$ 54	$ (5)	$ 4	$ (1)

(See accompanying notes)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(unaudited)

(millions)	Retained Earnings	Equity Advances	Total
Balance as at April 1, 2015	$ 668	$ 72	**$ 740**
Comprehensive loss	(1)	-	**(1)**
Dividends	(10)	-	**(10)**
Balance as at June 30, 2015	$ 657	$ 72	**$ 729**
Balance as at April 1, 2016	$ 669	$ 72	**$ 741**
Comprehensive income	54	-	**54**
Balance as at June 30, 2016	$ 723	$ 72	**$ 795**

(See accompanying notes)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(unaudited)

(millions)	Notes	For the Three Months Ended June 30 2016	2015
Operating activities			
Net income and comprehensive income		**$ 54**	$ (1)
Add (deduct) items not requiring an outlay of cash			
Net change in fair value of derivative instrument assets and liabilities	8	**(43)**	(7)
Change in revaluation of natural gas in storage to net realizable value	8	**(11)**	(1)
Depreciation and amortization		**23**	21
Net finance expenses		**8**	16
		31	28
Net change in non-cash working capital related to operations	10	**23**	52
Cash provided by operating activities		**54**	80
Investing activities			
Additions to intangible assets		**(2)**	(4)
Additions to property, plant and equipment		**(28)**	(39)
Decommissioning costs		**(1)**	(1)
Cash used in investing activities		**(31)**	(44)
Financing activities			
Debt retirement funds installments		**(4)**	(4)
Debt retirement funds redemptions		**3**	-
Increase (decrease) in short-term debt		**2**	(16)
Dividends paid		**(21)**	(10)
Proceeds from long-term debt	6	**22**	-
Repayment of long-term debt	6	**(22)**	-
Interest paid		**(13)**	(15)
Cash used in financing activities		**(33)**	(45)
Decrease in cash and cash equivalents		**(10)**	(9)
Cash and cash equivalents, beginning of period		**11**	10
Cash and cash equivalents, end of period		**$ 1**	$ 1

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

For the Three Months Ended June 30, 2016

1. General information

SaskEnergy Incorporated (SaskEnergy or the Corporation) is a Saskatchewan provincially owned Crown corporation operating under authority of *The SaskEnergy Act*. The address of SaskEnergy's registered office and principal place of business is 1777 Victoria Avenue, Regina, Saskatchewan, Canada S4P 4K5.

The Corporation owns and operates natural gas-related businesses located both within and outside Saskatchewan. The condensed consolidated financial statements should not be taken as indicative of the performance to be expected for the full year due to the seasonal nature of the natural gas business.

By virtue of *The Crown Corporations Act, 1993*, SaskEnergy has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a Saskatchewan provincially owned Crown corporation. Accordingly, the financial results of SaskEnergy are included in the consolidated financial statements of CIC. As a provincial Crown corporation, SaskEnergy and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

On November 30, 2015, the Government of Saskatchewan announced a change in the year end for CIC and its subsidiaries from December 31 to March 31, commencing with the 2015-16 fiscal year. Accordingly, the three-month period ended June 30, 2016 is the first quarter of 2016-17 fiscal year.

2. Basis of preparation

a. Statement of compliance

The Corporation's condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). The condensed consolidated financial statements do not include all the information required for the Corporation's annual consolidated financial statements. Accordingly, these statements should be read with reference to the annual report for the 15-month period ended March 31, 2016.

The condensed consolidated financial statements were authorized for issue by the Board of Directors on August 22, 2016.

b. Basis of measurement

The condensed consolidated financial statements have been prepared on the historical cost basis except for the following items:

Financial instruments classified as at fair value through profit or loss
Employee future benefits
Provisions
Natural gas in storage held for resale

c. Functional and presentation currency

The condensed consolidated financial statements are presented in Canadian dollars, the Corporation's functional currency, unless otherwise stated. All financial information presented in Canadian dollars has been rounded to the nearest million.

d. Use of estimates and judgments

In the application of the Corporation's accounting policies, management is required to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue, and expenses. Actual results may differ from these estimates.

The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised as well as any future periods affected.

2. Basis of preparation (continued)

Information about critical judgments in applying accounting policies that have a significant effect on the amounts recognized in the condensed consolidated financial statements include:

Revenue recognition related to unbilled revenue
Existence of decommissioning liabilities

Information about significant management estimates and assumptions that have a risk of resulting in a significant adjustment within the next financial period include:

Estimated unbilled revenue
Net realizable value of natural gas in storage held for resale
Fair value of financial and derivative instruments
Useful lives and amortization rates for intangible assets
Useful lives and depreciation rates for property, plant, and equipment
Estimated unearned customer capital contributions
Estimated future cost of decommissioning liabilities

3. Summary of significant accounting policies

The accounting policies, as detailed in Note 3 to the consolidated financial statements for the 15-month period ended March 31, 2016, have been applied consistently, by the Corporation and its subsidiaries, to all periods presented in these condensed consolidated financial statements.

Certain comparative amounts in the condensed consolidated financial statements have been reclassified to conform with the current quarter's presentation (Note 12).

a. Fair value measurements

For recurring and non-recurring fair value measurements, the Corporation estimates the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the reporting date under current market conditions. This requires the Corporation to make certain assumptions, including the principal (or most advantageous) market, the most appropriate valuation technique and the most appropriate valuation premise. The Corporation's own credit risk and the credit risk of the counterparty have been taken into account in determining the fair value of financial assets and liabilities, including derivative instruments.

In measuring fair value, the Corporation classifies items according to the following fair value hierarchy based on the amount of observable inputs:

i. Level 1

Quoted prices (unadjusted) are available in active markets for identical assets or liabilities as at the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide ongoing pricing information. The Corporation did not classify any of its fair value measurements within Level 1.

ii. Level 2

Inputs are other than quoted prices included within Level 1 that are either directly or indirectly observable for the asset or liability as at the reporting date. Level 2 valuations are based on inputs, including quoted market prices, time value, volatility factors and broker quotations which can be substantially observed or corroborated in the marketplace.

The fair value of debt retirement funds is determined by Saskatchewan's Ministry of Finance using a market approach with information provided by investment dealers. To the extent possible, valuations reflect indicative secondary pricing for these securities. In all other circumstances, valuations are determined with reference to similar actively traded instrument.

The fair value of natural gas derivative instruments is determined using a market approach. The Corporation obtains quoted market prices from sources such as the New York Mercantile Exchange and the Natural Gas Exchange, independent price publications and over-the-counter broker quotes.

The fair value of long-term debt is determined for disclosure purposes only using an income approach. Fair values are estimated using the present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

3. **Summary of significant accounting policies (continued)**

iii. Level 3

Inputs are unobservable for the particular assets and liabilities as at the reporting date. The Corporation did not classify any of its fair value measurements within Level 3.

c. Future changes in accounting policies

The following new standards are not yet effective and have not been applied in preparing these consolidated financial statements:

IFRS 9 *Financial Instruments* – introduces a logical approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. The new standard also replaces the rule-based hedge accounting requirements in IAS 39 *Financial Instruments: Recognition and Measurement* to more closely align the accounting with risk management activities. This standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

IFRS 15 *Revenue from Contracts with Customers* – clarifies the principles for recognizing revenue from contracts with customers and will affect the Corporation's accounting policies with respect to the following applicable revenue standards and interpretations upon its effective date:

IAS 18 *Revenue*
IAS 11 *Construction Contracts*
IFRIC 18 *Transfer of Assets from Customers*

This standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

IFRS 16 *Leases* – broadens the definition of a lease and increases transparency regarding a Corporation's leasing obligations. Under the new standard, an asset and liability is recognized on the consolidated statement of financial position for all material contracts that meet the definition of a lease. This standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if IFRS 15 *Revenue from Contracts with Customers* has also been applied.

The Corporation is continuing to review the new standards and has completed a preliminary assessment of the impact on its consolidated financial statements for IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*. The anticipated impacts are as follows:

IFRS 9 *Financial Instruments* – under the new financial asset classifications, the Corporation's debt retirement funds may qualify to be classified as fair value through other comprehensive income. Classification as such would eliminate the recognition of fluctuations in fair value on debt retirement funds in net income, as market value adjustments would be recorded in other comprehensive income. Under the new standard, the Corporation is also evaluating the implementation of hedge accounting for its commodity price risk management strategy. Implementation of hedge accounting would reduce the volatility of market value adjustments for outstanding commodity purchase contracts on net income, as the effective portion of the designated hedging relationships would be reclassified to other comprehensive income.

IFRS 15 *Revenue from Contracts with Customers* – under the new control-based revenue model, the Corporation anticipates minimal impacts to the majority of its revenue streams, but has not yet determined the impact of the new standard to customer capital contribution revenue. Changes to the recognition of customer capital contribution revenue are contingent on the Corporation's identification of performance obligations within the underlying customer contracts.

4. Natural gas in storage held for resale

(millions)	As at June 30, 2016	As at March 31, 2016
Cost	$ 143	$ 120
Revaluation to net realizable value	(23)	(34)
	$ 120	$ 86

With the decline in natural gas market prices over recent years, the net realizable value of natural gas in storage at the end of the quarter was $23 million below cost (March 31, 2016 - $34 million below cost). As at June 30, 2016, the Corporation expected that $64 million of the current inventory value would be sold or consumed within the next year, and $56 million of the current inventory value would be sold or consumed after more than one year.

5. Financial and derivative instruments

			As at June 30, 2016		As at March 31, 2016	
(millions)	Classification	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial and derivative assets						
Cash	FVTPL	n/a	$ 1	$ 1	$ 11	$ 11
Trade and other receivables	LAR	n/a	56	56	104	104
Debt retirement funds	FVTPL	Level 2	107	107	102	102
Fair value of derivative instrument assets	FVTPL	Level 2	9	9	11	11
Financial and derivative liabilities						
Short-term debt	OL	n/a	301	301	299	299
Trade and other payables	OL	n/a	103	103	105	105
Dividends payable	OL	n/a	-	-	21	21
Long-term debt	OL	Level 2	970	1,167	970	1,099
Fair value of derivative instrument liabilities	FVTPL	Level 2	64	64	109	109

Classification details:

FVTPL - fair value through profit or loss
LAR - loans and receivables
OL - other liabilities

The fair value hierarchy is not applicable where the carrying amount approximates fair value due to the short-term nature of the financial instrument.

5. Financial and derivative instruments (continued)

Notional values are an approximation of future undiscounted net cash flows. For physical natural gas contracts, the notional value is based on the contract price. For natural gas price swaps, the notional value is the difference between the contract price and the market price. Where contract prices are referenced to an index price that has not yet been fixed, the market price is used to estimate the contract price. As at June 30, 2016 natural gas derivative instruments had the following fair values, notional values, and maturities:

(millions)	2017	2018	2019	2020	2021	Total
Physical natural gas contracts						
Fair value	$ (25)	$ (11)	$ (6)	$ -	$ -	$ (42)
Notional value	(94)	(41)	(20)	2	-	(153)
Natural gas price swaps						
Fair value	(10)	(3)	-	-	-	(13)
Notional value	(10)	(3)	-	-	-	(13)
Total						
Fair value	$ (35)	$ (14)	$ (6)	$ -	$ -	$ (55)
Notional value	$ (104)	$ (44)	$ (20)	$ 2	$ -	$ (166)

Fair value - increase (decrease) in net income
Notional value - estimated undiscounted net cash inflow (outflow)

The fair value of the Corporation's outstanding natural gas contracts is presented in the condensed consolidated statement of financial position as follows:

(millions)	As at June 30, 2016	As at March 31, 2016
Fair value of derivative instrument assets	$ 9	$ 11
Fair value of derivative instrument liabilities	(64)	(109)
	$ (55)	$ (98)

6. Long-term debt

During the first quarter of 2016-17, the Corporation issued $22 million in long-term debt with an effective interest rate of 3.2%, and repaid $22 million in long-term debt with an effective interest rate of 4.8%.

7. Commitments and contingencies

At period end, the Corporation forecasted to spend an additional $263 million on capital projects during the remainder of the 2016-17 fiscal year, and the Corporation had $76 million of outstanding contractual commitments for the procurement of goods and services in the future.

The Corporation is involved in litigation resulting from the 2014 natural gas incident in the community of Regina Beach, Saskatchewan. The Corporation does not expect the outcomes to result in any material financial impact.

8. Unrealized market value adjustments

(millions)	For the Three Months Ended June 30 2016	2015
Change in fair value of debt retirement funds	$ 3	$ (4)
Change in fair value of natural gas derivative instruments	43	7
Change in revaluation of natural gas in storage to net realizable value	11	1
	$ 57	$ 4

9. Natural gas sales and purchases

(millions)	For the Three Months Ended June 30 2016 Commodity	2016 Gas Marketing	2016 Total	2015 Commodity	2015 Gas Marketing	2015 Total
Natural gas sales						
Natural gas sales to commodity customers	$ 27	$ -	$ 27	$ 32	$ -	$ 32
Realized on natural gas derivative instruments	1	26	27	9	35	44
Change in fair value of natural gas derivative instruments	-	(14)	(14)	(1)	(3)	(4)
	28	12	40	40	32	72
Natural gas purchases						
Realized on natural gas derivative instruments	(27)	(21)	(48)	(36)	(31)	(67)
Change in fair value of natural gas derivative instruments	48	9	57	10	1	11
Change in revaluation of natural gas in storage to net realizable value	-	11	11	-	1	1
	21	(1)	20	(26)	(29)	(55)
	$ 49	$ 11	$ 60	$ 14	$ 3	$ 17

10. Net change in non-cash working capital related to operations

(millions)	For the Three Months Ended June 30 2016	2015
Trade and other receivables	$ 48	$ 63
Natural gas in storage held for resale	(23)	(20)
Inventory of supplies	(1)	(2)
Trade and other payables	(1)	10
Deferred revenue	-	1
	$ 23	$ 52

11. Financial risk management

Through the normal course of business, the Corporation has exposure to market risk (natural gas price risk, interest rate risk, and foreign currency risk), liquidity risk, and credit risk related to its financial and derivative instruments. The Board of Directors, through the Audit and Finance Committee, has the overall responsibility for the establishment and oversight of the Corporation's risk management efforts. The Corporation's risk management policies and strategies, approved by the Board of Directors and reviewed regularly by the Audit and Finance Committee, provide the framework within which the Corporation may use financial and derivative instruments to manage its risks. The Corporation's significant risk management policies include the Corporate Derivatives Policy, the Commodity Risk Management Policy, the Corporate Debt and Interest Rate Risk Management Policy, the Foreign Currency Risk Management Policy and the Corporate Credit Risk Management Policy. The objectives, policies, and processes for managing risk were consistent with the prior period. The significant risks in relation to financial instruments that impact the Corporation are discussed below.

a. Natural gas price risk

The Corporation purchases natural gas for resale to its customers. While natural gas is purchased at fluctuating market prices, the Corporation sells natural gas to customers at a fixed commodity rate that is reviewed semi-annually. As part of its natural gas price risk management, the Corporation uses derivative instruments to manage the price of the natural gas it buys. The Corporation's objective is to reduce the volatility of natural gas prices and to have rates that are competitive to other utilities. The Corporation also purchases and sells natural gas in the open market to generate incremental income through its gas marketing activities.

The purchase or sale price of natural gas may be fixed within the contract or referenced to a floating index price. When the price is referenced to a floating index price, natural gas derivative instruments may be used to fix the settlement amount. The types of natural gas derivative instruments the Corporation may use for price risk management include natural gas price swaps, options, swaptions, and forward contracts.

The Corporation's commodity price risk management strategy establishes specific hedging targets, which may differ depending on current market conditions, to guide risk management activities. Additionally, the Corporation uses mark-to-market value, value-at-risk, and net exposure to monitor natural gas price risk. These metrics are measured and reported daily to the Commodity Risk Management Committee, a subcommittee of the Corporation's Executive Committee.

Based on the Corporation's period-end closing positions, an increase of $1.00 per Gigajoule in natural gas prices would have increased net income, through an increase in the fair value of natural gas derivative instruments, by $47 million (March 31, 2016 - $60 million). Conversely, a decrease of $1.00 per Gigajoule would have decreased net income, through a decrease in the fair value of natural gas derivative instruments, by $48 million (March 31, 2016 - $61 million).

b. Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they become due. The Corporation has credit facilities available to refinance maturities in excess of anticipated operating cash flows. The contractual maturities of the Corporation's financial obligations, including interest payments and the impact of netting agreements, as at June 30, 2016 were as follows:

		Contractual Maturities			
(millions)	Carrying Amount	Less Than 1 Year	1 - 2 Years	3 - 5 Years	More Than 5 Years
Short-term debt	$ 301	$ 301	$ -	$ -	$ -
Trade and other payables	103	103	-	-	-
Long-term debt	970	141	79	226	1,173
Derivative instruments	64	104	44	18	-
	$ 1,438	$ 649	$ 123	$ 244	$ 1,173

At period end, the Corporation's borrowing capacity, together with relatively stable operating cash flows, provide sufficient liquidity to fund these contractual obligations.

11. Financial risk management (continued)

The Corporation also has posted a letter of credit with NGX Financial Inc. (NGX) as security for natural gas purchases and sales conducted by the Corporation on the NGX natural gas exchange in Alberta. NGX may draw upon the letter of credit if the Corporation fails to make timely payment for, or delivery of, natural gas as per the related contract. During the first quarter of 2016-17, the letter of credit was reduced to $10 million, a $5 million reduction from year-end.

12. Comparative figures

Certain of the 2015-16 comparative figures have been reclassified to conform to the current period's presentation.

a. Fiscal year change

As a result of the Corporation's change in fiscal year described in Note 1, comparative balances that were previously reported as the six months ended June 30, 2015 have been restated to the three months ended June 30, 2015.

b. Other revenue

During the prior fiscal year, the Corporation's non-rate regulated compression and gathering services were reclassified from transportation and storage to other revenue. This reclassification resulted in a $1 million adjustment to the 2015-16 comparative figures.